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January 9, 1985

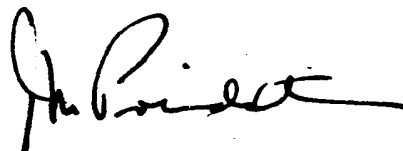
MEMORANDUM FOR THE VICE PRESIDENT

THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL
DEVELOPMENT

SUBJECT: NSSD on U.S. Policy Toward Economic Development
for Central America (S)

The President has approved the attached National Security Study
Directive on U.S. Policy toward Economic Development for Central
America. (S)

FOR THE PRESIDENT:


for Robert C. McFarlane

Attachment.

NSSD 2-85

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NATIONAL SECURITY STUDY
DIRECTIVE NUMBER 2-85

January 9, 1985

ECONOMIC DEVELOPMENT FOR CENTRAL AMERICA (U)Introduction

The purpose of this NSSD is to provide an analytical framework for building a successful U.S. policy toward economic development in Central America in support of U.S. national security policies. (S)

U.S. Central American policy as defined by NSDD-124 has four objectives: (1) Support for the advancement of democracy and implementation of a free and open electoral process in all countries of Central America; (2) Support for economic development, including significantly increased economic and humanitarian assistance to raise standards of living; (3) Resolution of regional disputes and conflicts through dialogue and the achievement of political settlements with verifiable agreements through negotiation; (4) Sufficient security assistance to ensure that democratic institutions, social reforms and economic improvements are not threatened by communist subversion and guerrilla warfare. (S)

The troubled situation in Central America has no single cause, but poor income distribution despite rapid growth in the 1960's has been a major factor. The subsequent sharp economic contraction in the 1970's, which has continued into the 1980's, has exacerbated the problem. (C)

The key to economic performance in the future will be implementation of a domestic policy framework which relies on free market principles as the basis for economic development. In addition successful strategies for handling outstanding debt problems, development of an indigenous energy and mineral base and establishment of a stable and democratic political environment will be important. (C)

Objectives of the Study

The study directed by this NSSD will 1) review economic prospects for Central America; 2) determine priority areas for U.S. assistance in order to achieve the reinforcing goals of economic development and the preservation and enhancement of U.S. national security and economic interests; and 3) establish a monitoring system to evaluate the progress of assistance programs in meeting overall U.S. objectives as defined by the Kissinger Commission and Jackson Plan legislation which

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contemplates for \$8 billion of U.S. funding over the next five years. (S)

Scope of Study

I. U.S. Objectives for Regional Economic Development in Support of U.S. National Security Concerns (C)

The specific U.S. economic developmental objectives for Central America include:

- A. Inducing broad-based economic development throughout Central America based on private enterprise and free market principles operating within a stable democratic political framework; (C)
- B. Fostering and strengthening U.S. trade and investment ties with Central America; (C)
- C. Working with Central American nations to implement essential structural economic reforms and improve the economic, political and legal environment in their nations in order to enhance their growth potential and to attract greater investment from abroad and maximize retention of local capital; (C)
- D. Laying the foundation for the development of a middle class in the region; (C)
- E. Encouraging rational, efficient development of indigenous energy, mineral and other natural resource wealth consistent with country endowments; (C)
- F. Stabilizing and improving the international financial circumstances of the region; (C)
- G. Maximizing the multiplier effect of U.S. assistance to reduce regional economic dependence and provide a climate of self-reliance. (C)

II. Economic Analysis and Projections

This section should synthesize existing findings on regional economic trends and development needs (drawing on work done for the Kissinger Commission supplemented as necessary with further research). (C)

A. Regional considerations: (U)

- Relevant world economic developments as they affect Central American economies; (U)
- Central America economic growth prospects, and demographic/populations factors 1985-2000; (U)

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- Present obstacles to economic growth and their principal interconnections, including the adequacy of economic policy responses to both positive and negative external economic developments

- o Insurgents
- o Infrastructure
- o Industrial base
- o Hard currency pressures
 - Loan problems
 - Energy requirements
 - Food import bills
 - Tourism difficulties
 - Foreign investment shortfall. (U)

B. Country-by-Country Profiles (current conditions, obstacles and expectations for the 1985-2000 period): (S)

- Overall economic growth
- Demographic factors
- Industrial sector base and infrastructure
- Investment climate
- Energy and minerals
- Labor force
- Agriculture/forestry/fishing
- Public/private sector U.S./foreign relationships
- Tourism
- International trade mechanisms and practices and potential for new sources of foreign exchange
- International finance and debt
- Economic assistance/food aid
- Opportunities for export expansion and diversification
- Absorptive capacity for external assistance
- Other macroeconomic variables including exchange rate and fiscal and monetary policies. (U)

III. U.S. Resource Allocation Decision-Making Process: Current Approach and Priorities (U)

- A. What are the present external resources and indigenous funding potential, their priorities and expected behavior over the short and medium term? (U)

- Domestic savings
- U.S. private/official resource flows
- European private/official resource flows

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- Japanese private/official resource flows
- Other Latin American private/official resource flows
- Multilateral efforts (World Bank, DAC, IMF, IDB, etc.) (U)

B. How can present aid programs be better structured to achieve U.S. objectives, given the present economic and political realities in the recipient countries and our finite resources? (C)

- Are there areas where U.S. policy initiatives are easier to promote at a regional level? For example, should the remains of the Common Market be revived and appropriately structured to support and enhance new initiatives? (C)
- What degree of importance should we assign to each country and by what measure -- level of development? degree of potential? receptivity to U.S. initiatives? political/economic ability to support U.S. interests? (S)
- What conditions should be applied for the allocation of resources? How should we develop and enforce those conditions? (C)
- Given the regional backdrop and level of funding, what are the individual country assets and opportunities that can be targeted? What techniques can be used to determine priorities vis-a-vis available resources?
 - Labor force
 - Resource base
 - o Energy
 - Traditional
 - Non-traditional
 - o Mineral
 - o Agricultural/forestry
 - o Husbandry/fishing
 - Manufacturing base
 - o Existing industries
 - o New manufacturing areas
 - o Possibilities based on GSP or CBI
 - o Infrastructure
 - Tourism potential
 - Legal/legislative environment (S)

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- C. What are the tradeoffs between present and projected U.S. assistance and failure to eliminate economic policy and other obstacles to economic development? (C)

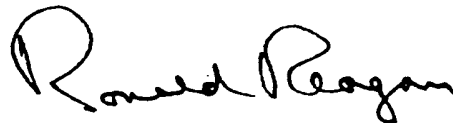
IV. Implementation, Timing and Monitoring of Assistance Programs (C)

- A. Given the above financial, natural and human resources of Central America, what is the optimal path to economic stability and democracy by the year 1990? By the year 2000?
- What are the priority assistance programs? (S)
 - What are the expected results over time of these assistance programs? (S)
 - How do we ensure that our assistance encourages appropriate economic policy and structural reforms? (C)
 - How do we ensure that our assistance acts as a multiplier for greater private investment? (C)
 - How can present efforts of AID to monitor the implementation of the Kissinger Commission objectives be enhanced? What is the best information system which could monitor in a comprehensible way progress in achieving U.S. objectives? (S)

Implementation

A study group to carry out this NSSD will be established under the auspices of the SIG-IEP and be chaired by the NSC staff. It will include representation from the following agencies and departments: Treasury, State, AID, Commerce, CIA, DOE, Agriculture, Defense, OMB, Eximbank, OPIC. (C)

The report should be ready for transmittal to the NSC for review by the President by mid-February 1985. (U)



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